

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5534-01  
Bill No.: HB 2087  
Subject: Economic Development; Federal-State Relations  
Type: Original  
Date: February 12, 2016

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Bill Summary: This proposal specifies that a qualified company under the Missouri Works Program includes the United States Department of Defense under certain circumstances.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
General Revenue	\$0 or (\$9,000,000)	\$0 or (\$9,000,000)	\$0 or (\$9,000,000)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0 or (\$9,000,000)</b>	<b>\$0 or (\$9,000,000)</b>	<b>\$0 or (\$9,000,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 5 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## **FISCAL ANALYSIS**

### **ASSUMPTION**

**Oversight** was unable to receive some of the agency responses in a timely manner due to the short fiscal note request time. Oversight has presented this fiscal note on the best current information that we have or on prior year information regarding a similar bill. Upon the receipt of agency responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval of the chairperson of the Joint Committee on Legislative Research to publish a new fiscal note.

Officials at the **Office of Administration's Division of Budget and Planning (BAP)** assume this proposal would add the Department of Defense to the definition of "qualified company" under the Missouri Works Program. If the Department of Defense meets the program qualifications, it would remit all withholding taxes for newly created jobs; then, those remittances would be paid to the Industrial Development Corporation (IDC) or the Missouri Development Finance Board (MDFB) acting as the co-applicant to cover costs associated with the purchase and maintenance of the project facilities.

To the extent the Department of Defense qualifies for additional tax credits and there is sufficient space under the Missouri Works Program cap of \$116 million, this proposal could impact General and Total State Revenues. Or, additional appropriation authority may be needed to transfer withholding receipts to the MDFB or an IDC.

BAP does not have enough information to determine how this proposal would affect the authorized tax credits from this program. The Department of Economic Development may have additional information and comments regarding the specific implementation of this proposal.

Officials at the **Department of Revenue** and the **Department of Economic Development** assume each assume no fiscal impact from this proposal to their respective organizations.

To qualify for the Missouri Works Program a company must create or retain a minimum number of new jobs at the project facility with average wages of 80%, 90%, 120%, or 140% of the county average wage and must offer and pay at least 50% of the health insurance premiums. There are 5 different types of programs qualifying companies may apply for; Zone Works, Rural Works, Statewide Works, Mega Works and Retention Works. Zone Works and Rural Works provide benefits of retention of 100% of the withholdings on the new jobs for 5-6 years. Statewide Works provides benefits of retention of withholdings or a combination of retention of withholdings and tax credits for 9% of payroll on the new jobs. Mega Works provides benefits of a combination retention of withholdings and tax credits totaling from 6%-7% respectively up to 9% of payroll

ASSUMPTION (continued)

of the new jobs. Retention Works provides benefits of the retention of withholding tax for up to 100% of the withholdings of the new jobs for up to 10 years.

**Oversight** assumes this proposal would allow the Department of Defense (DOD) to qualify for the Missouri Works program. This would allow the National Geospatial-Intelligence Agency in St. Louis to apply for under the Missouri Works program. Oversight has verified with the St. Louis City's Mayor's Office that the Agency employs approximately 3,150 people (with an average salary of \$83,000) and brings in an estimated \$2.4 million in annual earnings tax (1%).

	3,105 workers multiplied	\$2.4 million (annual earnings tax)
x	<u>\$83,000 average annual salary</u>	<u>/ 1% (earnings tax rate)</u>
=	\$257,715,000 in gross earnings	\$240,000,000 est. gross earnings
x	<u>3.5% (assumed state withholding rate)</u>	<u>x 3.5% (assumed state with. rate)</u>
=	\$9.1 million	= \$8.4 million

Based upon the above calculations, Oversight will show the fiscal impact as \$0 (no credits issued) to \$9,000,000.

**Oversight** assumes the withholding tax money would be directed to either the Industrial Development Corporation or the Missouri Development Finance Board to help pay for the relocation. Oversight will not show these as state government agencies or local political subdivisions.

**Oversight** assumes passage of this proposal may have a large positive impact upon the City of St. Louis if it helps the Department of Defense choose to stay in St. Louis. However, Oversight assumes these positive benefits to be indirect impacts of the bill, and will not reflect them in this fiscal note.

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
<b>GENERAL REVENUE</b>			
<u>Revenue Reduction</u> - DED/DOR - MO	\$0 or	\$0 or	\$0 or
Works expansion	<u>(\$9,000,000)</u>	<u>(\$9,000,000)</u>	<u>(\$9,000,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b>\$0 or <u>(\$9,000,000)</u></b>	<b>\$0 or <u>(\$9,000,000)</u></b>	<b>\$0 or <u>(\$9,000,000)</u></b>

FISCAL IMPACT - Local Government

FY 2017  
(10 Mo.)

FY 2018

FY 2019

\$0

\$0

\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

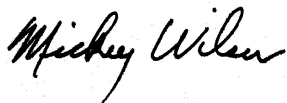
FISCAL DESCRIPTION

This bill adds the United States Department of Defense to the term "qualified company" with respect to the Missouri Works Program, subject to specified requirements set out in the bill. This bill also prohibits the Department of Defense from applying for benefits under the program unless it is a co-applicant with an industrial development corporation or the Missouri development finance board. The industrial development corporation or the Missouri Development Finance Board must be significantly involved with the project facility where the new jobs will be located.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development  
Office of Administration's Division of Budget and Planning  
Department of Revenue  
City of St. Louis



Mickey Wilson, CPA  
Director  
February 12, 2016

Ross Strobe  
Assistant Director  
February 12, 2016